

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lenawee County - Drain Commission	County Lenawee County
Fiscal Year End December 31, 2006	Opinion Date May 16, 2007	Date Audit Report Submitted to State May 23, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

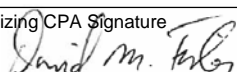
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**LENAWEE COUNTY  
DRAIN COMMISSION**

**Financial Statements**

**For The Year Ended December 31, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

# LENAWEE COUNTY DRAIN COMMISSION

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

May 16, 2007

To the Drain Commissioner of  
Lenawee County  
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Lenawee County Drain Commission, a component unit of Lenawee County, Michigan***, as of and for the year ended December 31, 2006, which collectively comprise the Drain Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Lenawee County Drain Commission. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Lenawee County Drain Commission as of December 31, 2006, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2007 on our consideration of the *Lenawee County Drain Commission's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Lenawee County Drain Commission has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lenawee County Drain Commission's basic financial statements. The combining nonmajor fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style with a large initial 'L'.

## BASIC FINANCIAL STATEMENTS

## COMPONENT-WIDE FINANCIAL STATEMENTS

**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Net Assets**  
**December 31, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,097,831	\$ 2,103,706	\$ 3,201,537
Receivables	885,509	15,881,002	16,766,511
Inventory	54,205	-	54,205
Capital assets being depreciated, net	3,799,019	-	3,799,019
<b>Total assets</b>	<b>5,836,564</b>	<b>17,984,708</b>	<b>23,821,272</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	536,736	213,110	749,846
Noncurrent liabilities:			
Due within one year	711,249	1,410,000	2,121,249
Due in more than one year	1,730,212	15,461,988	17,192,200
<b>Total liabilities</b>	<b>2,978,197</b>	<b>17,085,098</b>	<b>20,063,295</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,357,558	-	1,357,558
Restricted for other municipalities	-	899,610	899,610
Unrestricted	1,500,809	-	1,500,809
<b>Total net assets</b>	<b>\$ 2,858,367</b>	<b>\$ 899,610</b>	<b>\$ 3,757,977</b>

The accompanying notes are an integral part of these financial statements.



**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Activities**  
**For the Year Ended December 31, 2006**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>			<b><u>Net (Expense) Revenue</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	
Governmental activities:					
Public works	\$ 1,304,406	\$ -	\$ -	\$ 1,084,942	\$ (219,464)
Business-type activities:					
Municipal water and sewer projects	<u>2,745,171</u>	<u>224,132</u>	<u>2,093,994</u>	<u>-</u>	<u>(427,045)</u>
Total drain commission	<u>\$ 4,049,577</u>	<u>\$ 224,132</u>	<u>\$ 2,093,994</u>	<u>\$ 1,084,942</u>	<u>\$ (646,509)</u>

continued...

The accompanying notes are an integral part of these financial statements.

**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Activities (Concluded)**  
**For the Year Ended December 31, 2006**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (219,464)	\$ (427,045)	\$ (646,509)
General revenues:			
Unrestricted investment earnings	41,137	9,406	50,543
Other revenue	8,838	425,842	434,680
Total general revenues	49,975	435,248	485,223
Change in net assets	(169,489)	8,203	(161,286)
Net assets, beginning of year	3,027,856	891,407	3,919,263
<b>Net assets, end of year</b>	<b>\$ 2,858,367</b>	<b>\$ 899,610</b>	<b>\$ 3,757,977</b>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# LENAWEE COUNTY DRAIN COMMISSION

## Balance Sheet Governmental Funds December 31, 2006

	Drain Capital Projects	Lake Level Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 968,970	\$ 115,860	\$ 10,499	\$ 1,095,329
Due from other funds	-	-	976,131	976,131
Special assessments receivable	754,008	131,501	-	885,509
Inventory	-	-	54,205	54,205
<b><u>TOTAL ASSETS</u></b>	<b>\$ 1,722,978</b>	<b>\$ 247,361</b>	<b>\$ 1,040,835</b>	<b>\$ 3,011,174</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 6,807	\$ 6,807
Due to other funds	947,012	29,119	-	976,131
Advance from primary government	-	-	525,000	525,000
Deferred revenue	754,008	131,501	-	885,509
Total liabilities	1,701,020	160,620	531,807	2,393,447
<b>Fund balances</b>				
Unreserved - undesignated	21,958	86,741	-	108,699
Reported in nonmajor capital project funds	-	-	509,028	509,028
Total fund balances	21,958	86,741	509,028	617,727
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 1,722,978</b>	<b>\$ 247,361</b>	<b>\$ 1,040,835</b>	<b>\$ 3,011,174</b>

The accompanying notes are an integral part of these financial statements.

**LENAWEE COUNTY DRAIN COMMISSION**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**December 31, 2006**

Fund balances - total governmental funds	\$ 617,727
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets, net of accumulated depreciation	3,137,115
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Other long-term assets are not available to pay current year expenditures and, therefore, are not recorded in the funds.

Add - deferred revenue on long-term special assessments receivable	885,509
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	334,616
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Certain liabilities, such as bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(1,433,000)
Deduct - drain notes payable	(683,600)

Net assets of governmental activities	<u><u>\$ 2,858,367</u></u>
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The accompanying notes are an integral part of these financial statements.

**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2006**

	<b>Drain Capital Projects</b>	<b>Lake Level Capital Projects</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenue</b>				
Special assessments	\$ 916,381	\$ 7,363	\$ -	\$ 923,744
Interest	41,050	87	1,475	42,612
Total revenue	957,431	7,450	1,475	966,356
<b>Expenditures</b>				
Current:				
Public works	914,922	361,177	-	1,276,099
Debt service:				
Principal	288,835	-	-	288,835
Interest and fiscal charges	42,135	5,268	-	47,403
Total expenditures	1,245,892	366,445	-	1,612,337
Revenue over (under) expenditures	(288,461)	(358,995)	1,475	(645,981)
<b>Other financing sources (uses)</b>				
Issuance of bonds and notes	232,900	393,000	-	625,900
Net change in fund balances	(55,561)	34,005	1,475	(20,081)
Fund balance, beginning of year	77,519	52,736	507,553	637,808
<b>Fund balance, end of year</b>	<b>\$ 21,958</b>	<b>\$ 86,741</b>	<b>\$ 509,028</b>	<b>\$ 617,727</b>

The accompanying notes are an integral part of these financial statements.

**LENAWEE COUNTY DRAIN COMMISSION**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2006**

Net change in fund balances - total governmental funds	\$ (20,081)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	165,382
Deduct - depreciation expense	(74,293)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds payable	288,835
Deduct - bond proceeds	(625,900)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Deduct - net operating loss from governmental activities in internal service fund	(51,633)
Deduct - interest expense from governmental internal service fund	(12,247)
Deduct - loss on sale of capital assets	(8,113)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add - change in deferred long-term receivables	168,561
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Change in net assets of governmental activities	\$ (169,489)
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The accompanying notes are an integral part of these financial statements.

# LENAWEE COUNTY DRAIN COMMISSION

## Statement of Net Assets

### Proprietary Funds

December 31, 2006

	<b>Business-type Activities -</b>		
	<b>Township of Madison Water</b>	<b>Cambridge/ Franklin Sewer</b>	<b>Wampler's Lake Sewer</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 6,706	\$ 533,947	\$ 782,703
Current portion of lease receivable	305,000	205,000	285,000
Total current assets	311,706	738,947	1,067,703
<b>Noncurrent assets</b>			
Leases receivable, net of current portion	1,893,294	1,131,053	1,647,052
Capital assets, net of accumulated depreciation	-	-	-
Total other assets	1,893,294	1,131,053	1,647,052
Total assets	2,205,000	1,870,000	2,714,755
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	-	-	-
Due to other governments	-	-	-
Current portion of bonds payable	305,000	205,000	285,000
Current portion of notes payable	-	-	-
Current portion of lease purchase agreement	-	-	-
Total current liabilities	305,000	205,000	285,000
<b>Long-term debt</b>			
Bonds payable	1,900,000	1,665,000	1,915,000
Notes payable	-	-	-
Lease purchase agreement	-	-	-
Total long-term debt	1,900,000	1,665,000	1,915,000
Total liabilities	2,205,000	1,870,000	2,200,000
<b>Net assets</b>			
Invested in capital assets, net of related debt	-	-	-
Unrestricted	-	-	514,755
Total net assets	\$ -	\$ -	\$ 514,755

The accompanying notes are an integral part of these financial statements.



<b>Enterprise Funds</b>				<b>Governmental Activities</b>
				<b>Internal Service</b>
<b>Central Lenawee Sewer</b>	<b>Rollin- Woodstock Sewer</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Drain Equipment Revolving</b>
\$ 23,699	\$ 130,851	\$ 625,800	\$ 2,103,706	\$ 2,502
265,000	235,000	115,000	1,410,000	-
288,699	365,851	740,800	3,513,706	2,502
5,258,446	3,936,491	604,666	14,471,002	-
-	-	-	-	661,904
5,258,446	3,936,491	604,666	14,471,002	661,904
5,547,145	4,302,342	1,345,466	17,984,708	664,406
-	-	-	-	4,929
-	-	213,110	213,110	-
265,000	235,000	115,000	1,410,000	-
-	-	-	-	50,375
-	-	-	-	31,837
265,000	235,000	328,110	1,623,110	87,141
5,266,988	3,965,000	750,000	15,461,988	-
-	-	-	-	94,370
-	-	-	-	148,279
5,266,988	3,965,000	750,000	15,461,988	242,649
5,531,988	4,200,000	1,078,110	17,085,098	329,790
-	-	-	-	337,043
15,157	102,342	267,356	899,610	(2,427)
\$ 15,157	\$ 102,342	\$ 267,356	\$ 899,610	\$ 334,616

**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Revenue, Expenses and**  
**Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

	<b>Business-type Activities -</b>		
	<b>Township of Madison Water</b>	<b>Cambridge/ Franklin Sewer</b>	<b>Wampler's Lake Sewer</b>
<b>Operating revenue</b>			
Intergovernmental revenue	\$ 316,222	\$ 96,823	\$ 388,779
Charges for services	-	-	-
Other revenue	-	-	-
Total operating revenue	316,222	96,823	388,779
<b>Operating expenses</b>			
Other expense	-	-	223,490
Depreciation expense	-	-	-
Total operating expenses	-	-	223,490
Operating income (loss)	316,222	96,823	165,289
<b>Non-operating revenue (expenses)</b>			
Interest income	-	-	3,948
Interest expense	(316,222)	(96,823)	(120,350)
Loss on sale of capital assets	-	-	-
Total non-operating revenue (expenses)	(316,222)	(96,823)	(116,402)
Change in net assets	-	-	48,887
Net assets, beginning of year	-	-	465,868
<b>Net assets, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 514,755</b>

The accompanying notes are an integral part of these financial statements.

<b>Enterprise Funds</b>				<b>Governmental Activities</b>
				<b>Internal Service</b>
<b>Central Lenawee Sewer</b>	<b>Rollin- Woodstock Sewer</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Drain Equipment Revolving</b>
\$ 746,821	\$ 110,750	\$ 434,599	\$ 2,093,994	\$ -
-	-	15,841	15,841	285,495
-	425,372	208,291	633,663	-
746,821	536,122	658,731	2,743,498	285,495
345,895	437,787	626,057	1,633,229	214,897
-	-	-	-	122,231
345,895	437,787	626,057	1,633,229	337,128
400,926	98,335	32,674	1,110,269	(51,633)
103	470	5,355	9,876	-
(413,882)	(110,750)	(53,915)	(1,111,942)	(12,247)
-	-	-	-	(8,113)
(413,779)	(110,280)	(48,560)	(1,102,066)	(20,360)
(12,853)	(11,945)	(15,886)	8,203	(71,993)
28,010	114,287	283,242	891,407	406,609
\$ 15,157	\$ 102,342	\$ 267,356	\$ 899,610	\$ 334,616

**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

	<b>Business-type Activities -</b>		
	<b>Township of Madison Water</b>	<b>Cambridge/ Franklin Sewer</b>	<b>Wampler's Lake Sewer</b>
<b>Cash flows from operating activities</b>			
Cash received from municipalities	\$ 316,222	\$ 96,823	\$ 388,779
Other operating receipts	-	-	-
Cash paid to employees and suppliers	-	-	(223,490)
Receipts for interfund services provided	-	-	-
Net cash provided by operating activities	316,222	96,823	165,289
<b>Cash flows from capital and related financing activities</b>			
Principal payments	(395,000)	(205,000)	(275,000)
Interest payments	(316,222)	(96,823)	(120,350)
Proceeds from long-term debt	-	-	-
Payments for additional leases receivable	-	(41,146)	(105,000)
Proceeds from sale of capital assets	-	-	-
Purchase of capital assets	-	-	-
Net cash used in capital and related financing activities	(711,222)	(342,969)	(500,350)
<b>Cash flows from investing activities</b>			
Interest income received	-	-	3,948
Amounts collected on leases receivable	394,905	314,399	97,711
Net cash provided by investing activities	394,905	314,399	101,659
Net increase (decrease) in cash and cash equivalents	(95)	68,253	(233,402)
Cash and cash equivalents, beginning of year	6,801	465,694	1,016,105
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,706</b>	<b>\$ 533,947</b>	<b>\$ 782,703</b>

<b>Enterprise Funds</b>				<b>Governmental Activities</b>
				<b>Internal Service</b>
<b>Central Lenawee Sewer</b>	<b>Rollin- Woodstock Sewer</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Drain Equipment Revolving</b>
\$ 746,821	\$ 110,750	\$ 434,599	\$ 2,093,994	\$ -
-	425,372	224,132	649,504	-
(345,895)	(437,787)	(626,057)	(1,633,229)	(249,577)
-	-	-	-	285,495
400,926	98,335	32,674	1,110,269	35,918
(260,000)	(230,000)	(165,000)	(1,530,000)	(98,699)
(413,882)	(110,750)	(53,915)	(1,111,942)	(12,247)
-	-	-	-	308,196
(4,623)	(62,509)	(214,950)	(428,228)	-
-	-	-	-	20,315
-	-	-	-	(339,397)
(678,505)	(403,259)	(433,865)	(3,070,170)	(121,832)
103	470	5,355	9,876	-
260,377	245,523	282,056	1,594,971	-
260,480	245,993	287,411	1,604,847	-
(17,099)	(58,931)	(113,780)	(355,054)	(85,914)
40,798	189,782	739,580	2,458,760	88,416
\$ 23,699	\$ 130,851	\$ 625,800	\$ 2,103,706	\$ 2,502

**LENAWEE COUNTY DRAIN COMMISSION**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended December 31, 2006**

	<b>Business-type Activities -</b>		
	<b>Township of Madison Water</b>	<b>Cambridge/ Franklin Sewer</b>	<b>Wampler's Lake Sewer</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ 316,222	\$ 96,823	\$ 165,289
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	-	-	-
Increase (decrease) in:			
Accounts payable	-	-	-
Net cash provided by operating activities	<u>\$ 316,222</u>	<u>\$ 96,823</u>	<u>\$ 165,289</u>

The accompanying notes are an integral part of these financial statements.

<b>Enterprise Funds</b>				<b>Governmental</b>
				<b>Activities</b>
				<b>Internal</b>
				<b>Service</b>
<b>Central Lenawee Sewer</b>	<b>Rollin- Woodstock Sewer</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Drain Equipment Revolving</b>
\$ 400,926	\$ 98,335	\$ 32,674	\$ 1,110,269	\$ (51,633)
-	-	-	-	122,231
-	-	-	-	(34,680)
\$ 400,926	\$ 98,335	\$ 32,674	\$ 1,110,269	\$ 35,918

## NOTES to the FINANCIAL STATEMENTS



# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

These financial statements represent the financial position and the changes in financial position of the funds of the Lenawee County Drain Commission (the “Drain Commission”). These funds are considered to be a discretely presented component unit of Lenawee County (the “County” or “primary government”) and are an integral part of that reporting entity.

#### **B. Component-wide and Fund Financial Statements**

The component-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The component-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Drain Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Only special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue for the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Drain Commission reports the following major governmental funds:

The *drain capital projects fund* accounts for the use of resources in constructing and maintaining the drain system. The primary funding source for this fund is special assessments.

The *lake level capital projects fund* accounts for the use of resources in constructing and maintaining lake levels. The primary funding source for this fund is special assessments.

The Drain Commission reports the following major proprietary funds:

The *Township of Madison water fund* accounts for the financing of system improvements for the stated municipality.

The *Cambridge/Franklin sewer fund* accounts for the financing of system improvements for the stated municipality.

The *Wampler's Lake sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

The *Central Lenawee sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

The *Rollin-Woodstock sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs for the stated municipality.

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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The *capital projects funds* account for the use of resources, primarily bond proceeds, in constructing drains.

The *internal service fund* accounts for operations that provide services to other funds of the Drain Commission, on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the component-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to cities and townships for operations, equipment rentals, and finance charges. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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### **D. Assets, Liabilities and Net Assets or Equity**

#### **1. Deposits and Investments**

The Drain Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less. All deposits and investments are in the name of the County Treasurer

Investments are stated at fair value.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

#### **2. Receivables and Payables**

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Special assessments receivable, which are based on total estimated construction and maintenance costs of each drain project, reflect amounts due from benefiting parties including local units of government and property owners. No allowance for uncollectibles is recorded because the special assessments represent a lien on the respective properties.

#### **3. Capital Assets**

Capital assets, which include mobile equipment and infrastructure assets, are reported in the governmental activities column of the Statement of Net Assets. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 2 years. Major outlays for equipment and infrastructure capital assets and improvements are capitalized as projects are constructed. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets, if any, are recorded at estimated fair value at the date of donation.

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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Infrastructure is depreciated using the straight-line method over 50 years and equipment is being depreciated over 5 or 10 years.

### 4. Long-term Obligations

In the component-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

## II. DETAILED NOTES ON ALL FUNDS

### A. Deposit and Investments

At year end, the carrying amount of deposits and investments of the Drain Commission were as follows:

Deposits held in the name of the County Treasurer	\$ 2,169,151
Investments	<u>1,032,386</u>
<b>Total</b>	<b><u>\$ 3,201,537</u></b>

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

The Drain Commission chooses to disclose its investments by specifically identifying each. As of year end, the Drain Commission had the following investments through the County Treasurer.

	<b>Carrying Amount (Fair Value)</b>	<b><u>Credit Rating</u></b>
<b>Investments:</b>		
Comerica Governmental Cash Investment Fund	\$ 648,139	-n/a-
MBIA Local Government Investment Pool	<u>384,247</u>	-n/a-
	<b><u>\$ 1,032,386</u></b>	

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. None of the Drain Commission's investments were subject to credit risk rating.

*Custodial Credit Risk – Deposits.* The Drain Commission maintains \$2,169,151 in checking, savings and CD accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances since they are included in the pooled and other cash accounts of Lenawee County.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Drain Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Drain Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### **B. Receivables**

Receivables in the governmental activities consist entirely of special assessments. At year end, the Drain Commission reported special assessments receivable of \$885,509. All amounts are expected to be collected within one year.

Receivables in the business-type activities consist entirely of leases receivable. The terms of these capital leases, which relate to water and sewer systems constructed by the Drain Commission on behalf of the local units, match the debt maturity requirements of the related bonds less any cash remaining in the funds to repay the debt. At year end, the Drain Commission reported leases receivable in business-type activities of \$15,881,002, \$1,410,000 of which is expected to be collected within one year.

Governmental funds report deferred revenue in connection with special assessments receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At year end, the Drain Commission reported deferred ("unavailable") revenue of \$885,509.

### **C. Due to Other Governments**

Due to other governments recognized in business-type activities as accounts payable represent amounts held for municipalities for the construction and maintenance of water and sewer systems. At year end, the Drain Commission reported \$213,110 as due to other governments.

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

### D. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2006, was as follows:

	<u>Receivable</u>	<u>Payable</u>
<b>Due to/from other funds:</b>		
Drain Capital Projects Fund	\$ -	\$ 1,001,217
Lake Level Capital Projects Fund	-	29,119
Nonmajor governmental funds	<u>1,030,336</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 1,030,336</u></b>	<b><u>\$ 1,030,336</u></b>

### Advances from primary government:

Nonmajor governmental funds	<b><u>\$ 525,000</u></b>
-----------------------------	--------------------------

The Drain Commission has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

### E. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 3,725,884	\$ 165,382	\$ -	\$ 3,891,266
Equipment	1,237,793	339,397	221,500	1,355,690
Total capital assets, being depreciated	<u>4,963,677</u>	<u>504,779</u>	<u>221,500</u>	<u>5,246,956</u>
Less accumulated depreciation for:				
Infrastructure	679,858	74,293	-	754,151
Equipment	764,627	122,231	193,072	693,786
Total accumulated depreciation	<u>1,444,485</u>	<u>196,524</u>	<u>193,072</u>	<u>1,447,937</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 3,519,192</u></b>	<b><u>\$ 308,255</u></b>	<b><u>\$ 28,428</u></b>	<b><u>\$ 3,799,019</u></b>



# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

### F. Long-term Debt

The following is a summary of the changes in long-term obligations for the year ended December 31, 2006:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental activities:</b>					
Bonds payable	\$ 1,210,000	\$ 393,000	\$ 170,000	\$ 1,433,000	\$ 288,600
Drain notes payable	569,535	232,900	118,835	683,600	340,437
Notes payable	79,188	108,656	43,099	144,745	50,375
Lease purchase agreement	36,176	199,540	55,600	180,116	31,837
	1,894,899	934,096	387,534	2,441,461	711,249
<b>Business-type activities:</b>					
Bonds payable	18,401,988	-	1,530,000	16,871,988	1,410,000
<b>Total Drain Commission</b>	<b>\$ 20,296,887</b>	<b>\$ 934,096</b>	<b>\$ 1,917,534</b>	<b>\$ 19,313,449</b>	<b>\$ 2,121,249</b>

### Governmental Activities:

General obligation bonds currently outstanding are as follows:

<b><u>District</u></b>	<b><u>Original Issue</u></b>	<b><u>Annual Installments</u></b>	<b><u>Through Period</u></b>	<b><u>Interest Rate</u></b>	<b><u>Amount</u></b>
Windemere Drain	\$ 385,000	\$ 35,000 – \$ 40,000	2014	2.3%	\$ 315,000
Pollard Drain	410,000	100,000 – 110,000	2008	2.3%	210,000
Bent Oak Drain	385,000	35,000 – 40,000	2014	3.0 – 4.2%	315,000
Lock Erin Lake Level	200,000	81,400 – 118,600	2008	2.5%	593,000
<b>Total</b>					<b><u>\$ 1,433,000</u></b>

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

Drain notes payable consist of thirteen drain notes payable in total annual installments of \$23,680 to \$340,437 at interest rates of 2.74% to 6.45%, with final payment due in 2015.

Notes payable consist of five notes payable for vehicle/equipment purchases due in annual installments of \$12,030 to \$50,375 at interest rates of 2.90% to 6.25%, with final payment due in 2009.

There are two lease purchase agreements for equipment payable in annual installments of \$10,269 to \$31,837 at an interest rate of 5.00% to 5.30%, with final payment due in 2011.

Annual debt service requirements to maturity for governmental activities as of December 31, 2006, are as follows:

	Bonds		Drain Notes		Notes		Lease Purchase	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 288,600	\$ 47,752	\$ 340,437	\$ 34,827	\$ 50,375	\$ 5,497	\$ 31,837	\$ 8,587
2008	308,600	38,544	64,407	17,040	50,705	5,148	33,493	6,931
2009	198,600	30,219	64,556	13,770	43,665	2,392	35,233	5,191
2010	198,600	23,060	59,740	10,490	-	-	37,063	3,361
2011	198,600	15,680	59,740	7,525			42,490	965
2012-2015	240,000	14,700	94,720	11,400	-	-	-	-
	<u>\$ 1,433,000</u>	<u>\$ 169,955</u>	<u>\$ 683,600</u>	<u>\$ 95,052</u>	<u>\$ 144,745</u>	<u>\$ 13,037</u>	<u>\$ 180,116</u>	<u>\$ 25,035</u>

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

### Business-type Activities:

<u>District</u>	<u>Original Issue</u>	<u>Annual Installments</u>	<u>Through Period</u>	<u>Interest Rate</u>	<u>Amount</u>
South Shore	\$ 850,000	\$ 25,000 – \$ 50,000	2016	5.0 - 7.0%	\$ 465,000
Posey Lake	1,400,000	60,000 – 85,000	2011	5.0 - 8.0%	400,000
Madison Township #3 Refunding	700,000	115,000 – 185,000	2007	1.0 - 2.5%	115,000
Madison Township #4	3,460,000	110,000 – 190,000	2017	4.8 - 5.0%	2,090,000
Cambridge/Franklin	3,890,000	175,000 – 265,000	2015	4.5 - 7.5%	1,870,000
Wampler's Lake	5,000,000	225,000 – 345,000	2013	5.0%	2,200,000
Rollin-Woodstock - Plant Improvement	5,080,000	210,000 – 330,000	2021	2.5%	4,200,000
Central Lenawee Sewer	4,410,000	95,000 – 320,000	2023	3.0 - 4.6%	3,975,000
Central Lenawee Sewer – DWRP	1,875,000	90,000 – 95,000	2023	2.5%	<u>1,556,988</u>
<b>Total</b>					<b><u>\$ 16,871,988</u></b>

Annual debt service requirements to maturity for business-type activities as of December 31, 2006, are as follows:

# LENAWEE COUNTY DRAIN COMMISSION

## Notes To Basic Financial Statements

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	Bonds	
	Principal	Interest
2007	\$ 1,410,000	\$ 632,074
2008	1,330,000	580,819
2009	1,345,000	519,388
2010	1,370,000	463,650
2011	1,380,000	407,963
2012-2016	5,690,000	1,295,692
2017-2021	3,580,000	503,281
2022-2023	766,988	48,042
	<u>\$ 16,871,988</u>	<u>\$ 4,450,909</u>

### *Advance Refunding*

The Township of Madison issued \$700,000 of general obligation refunding bonds in 2003. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the long-term debt of the Drain Commission.

The balance of defeased bonds outstanding as of December 31, 2006, was \$1,360,000.

## III. OTHER INFORMATION

### A. Defined Benefit Pension Plan

#### Plan Description

The Drain Commission, as a component unit of Lenawee County, contributes to a single-employer defined benefit pension plan provided through a private insurance company that acts as a common investment and administrative agent for the County. The details related to participation are reported in the financial statements of Lenawee County.

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## COMBINING FINANCIAL STATEMENTS

# LENAWEE COUNTY DRAIN COMMISSION

## Combining Balance Sheet

### Nonmajor Governmental Funds

December 31, 2006

	<u>Capital Project Funds</u>		
	802	804	
	Drain	Drain	
	Revolving	Maintenance	
	Revolving	Revolving	Total
<hr/>			
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 8,608	\$ 1,891	\$ 10,499
Due from other funds	468,994	507,137	976,131
Inventory	54,205	-	54,205
<hr/>			
<b><u>TOTAL ASSETS</u></b>	<b>\$ 531,807</b>	<b>\$ 509,028</b>	<b>\$ 1,040,835</b>
<hr/> <hr/>			
<b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 6,807	\$ -	\$ 6,807
Advance from primary government	525,000	-	525,000
<hr/>			
Total liabilities	531,807	-	531,807
 <b>Fund balance</b>			
Unreserved - undesignated	-	509,028	509,028
<hr/>			
<b><u>TOTAL LIABILITIES</u></b>	<b>\$ 531,807</b>	<b>\$ 509,028</b>	<b>\$ 1,040,835</b>
<b><u>AND FUND BALANCE</u></b>			

**LENAWEE COUNTY DRAIN COMMISSION**  
**Combining Statement of Revenue, Expenditures**  
**and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2006**

	<b>Capital Project Funds</b>		
	<b>802</b>	<b>804</b>	
	<b>Drain</b>	<b>Drain</b>	
	<b>Revolving</b>	<b>Maintenance</b>	<b>Total</b>
	<b>Revolving</b>	<b>Revolving</b>	
<b>Revenue</b>			
Interest	\$ -	\$ 1,475	\$ 1,475
<b>Expenditures</b>			
Current:			
Public works	-	-	-
Net change in fund balances	-	1,475	1,475
Fund balance, beginning of year	-	507,553	507,553
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ 509,028</b>	<b>\$ 509,028</b>

**LENAWEE COUNTY DRAIN COMMISSION**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**December 31, 2006**

	<b>City of Morenci</b>	<b>South Shore</b>	<b>Posey Lake</b>	<b>Riga Township Water</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 5,727	\$ 186,398	\$ 698	\$ 7,729
Current portion of lease receivable	-	45,000	70,000	-
Total current assets	<u>5,727</u>	<u>231,398</u>	<u>70,698</u>	<u>7,729</u>
<b>Noncurrent assets</b>				
Leases receivable, net of current portion	-	275,346	329,320	-
Total assets	<u>5,727</u>	<u>506,744</u>	<u>400,018</u>	<u>7,729</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Due to other governments	5,727	-	-	5,480
Current portion of bonds payable	-	45,000	70,000	-
Total current liabilities	<u>5,727</u>	<u>45,000</u>	<u>70,000</u>	<u>5,480</u>
<b>Long-term debt</b>				
Bonds payable	-	420,000	330,000	-
Total long-term debt	<u>-</u>	<u>420,000</u>	<u>330,000</u>	<u>-</u>
Total liabilities	<u>5,727</u>	<u>465,000</u>	<u>400,000</u>	<u>5,480</u>
<b>Net assets</b>				
Unrestricted	<u>\$ -</u>	<u>\$ 41,744</u>	<u>\$ 18</u>	<u>\$ 2,249</u>



<b>Lake Arrowhead Estates Water</b>	<b>Township of Adrian</b>	<b>Richlyn Mannor Water</b>	<b>Mannor Farms</b>	<b>Clayton Sewer</b>	<b>Fairfield Sewer</b>	<b>Loch Erin Sewer</b>	<b>Total</b>
\$ 931	\$ 23,263	\$ 1,288	\$ 1,251	\$ 1,931	\$ 2,561	\$ 394,023	\$ 625,800
-	-	-	-	-	-	-	115,000
931	23,263	1,288	1,251	1,931	2,561	394,023	740,800
-	-	-	-	-	-	-	604,666
931	23,263	1,288	1,251	1,931	2,561	394,023	1,345,466
691	4,010	-	-	-	-	197,202	213,110
-	-	-	-	-	-	-	115,000
691	4,010	-	-	-	-	197,202	328,110
-	-	-	-	-	-	-	750,000
-	-	-	-	-	-	-	750,000
691	4,010	-	-	-	-	197,202	1,078,110
\$ 240	\$ 19,253	\$ 1,288	\$ 1,251	\$ 1,931	\$ 2,561	\$ 196,821	\$ 267,356

**LENAWEE COUNTY DRAIN COMMISSION**  
**Combining Statement of Revenue, Expenses and**  
**Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended December 31, 2006**

	<b>City of Morenci</b>	<b>South Shore</b>	<b>Posey Lake</b>	<b>Riga Township Water</b>
<b>Operating revenue</b>				
Intergovernmental revenue	\$ 3,000	\$ 57,524	\$ 78,282	\$ -
Charges for services	-	-	-	-
Other revenue	-	-	-	195,678
Total operating revenue	3,000	57,524	78,282	195,678
<b>Operating expenses</b>				
Operations and maintenance	-	29,300	52,893	200,253
Operating income (loss)	3,000	28,224	25,389	(4,575)
<b>Non-operating revenue (expenses)</b>				
Interest income	-	127	7	33
Interest expense	(3,000)	(24,945)	(25,970)	-
Total non-operating revenue (expenses)	(3,000)	(24,818)	(25,963)	33
Change in net assets	-	3,406	(574)	(4,542)
Net assets, beginning of year	-	38,338	592	6,791
<b>Net assets, end of year</b>	<b>\$ -</b>	<b>\$ 41,744</b>	<b>\$ 18</b>	<b>\$ 2,249</b>

<b>Lake Arrowhead Estates Water</b>	<b>Township of Adrian</b>	<b>Richlyn Mannor Water</b>	<b>Mannor Farms</b>	<b>Clayton Sewer</b>	<b>Fairfield Sewer</b>	<b>Loch Erin Sewer</b>	<b>Total</b>
\$ 19,034	\$ 82,089	\$ -	\$ -	\$ 27,822	\$ 34,898	\$ 131,950	\$ 434,599
-	-	-	15,841	-	-	-	15,841
-	-	12,613	-	-	-	-	208,291
19,034	82,089	12,613	15,841	27,822	34,898	131,950	658,731
20,255	82,001	12,193	14,859	29,927	35,795	148,581	626,057
(1,221)	88	420	982	(2,105)	(897)	(16,631)	32,674
4	59	2	8	12	8	5,095	5,355
-	-	-	-	-	-	-	(53,915)
4	59	2	8	12	8	5,095	(48,560)
(1,217)	147	422	990	(2,093)	(889)	(11,536)	(15,886)
1,457	19,106	866	261	4,024	3,450	208,357	283,242
\$ 240	\$ 19,253	\$ 1,288	\$ 1,251	\$ 1,931	\$ 2,561	\$ 196,821	\$ 267,356

**LENAWEE COUNTY DRAIN COMMISSION**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended December 31, 2006**

	<b>City of Morenci</b>	<b>South Shore</b>	<b>Posey Lake</b>	<b>Riga Township Water</b>
<b>Cash flows from operating activities</b>				
Cash received from municipalities	\$ 3,000	\$ 57,524	\$ 78,282	\$ -
Other operating receipts	-	-	-	195,678
Cash paid to employees and suppliers	-	(29,300)	(52,893)	(200,253)
Net cash provided by (used in) operating activities	3,000	28,224	25,389	(4,575)
<b>Cash flows from capital and related financing activities</b>				
Principal payments	(50,000)	(45,000)	(70,000)	-
Interest payments	(3,000)	(24,945)	(25,970)	-
Payments for construction of leases receivable	(525)	-	(4,154)	(67,150)
Net cash used in capital and related financing activities	(53,525)	(69,945)	(100,124)	(67,150)
<b>Cash flows from investing activities</b>				
Interest income received	-	127	7	33
Amounts collected on leases receivable	48,541	32,324	73,529	66,010
Net cash provided by investing activities	48,541	32,451	73,536	66,043
Net increase (decrease) in cash and cash equivalents	(1,984)	(9,270)	(1,199)	(5,682)
Cash and cash equivalents, beginning of year	7,711	195,668	1,897	13,411
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,727</b>	<b>\$ 186,398</b>	<b>\$ 698</b>	<b>\$ 7,729</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 3,000	\$ 28,224	\$ 25,389	\$ (4,575)
Net cash provided by (used in) operating activities	\$ 3,000	\$ 28,224	\$ 25,389	\$ (4,575)

<b>Lake Arrowhead Estates Water</b>	<b>Township of Adrian</b>	<b>Richlyn Mannor Water</b>	<b>Mannor Farms</b>	<b>Clayton Sewer</b>	<b>Fairfield Sewer</b>	<b>Loch Erin Sewer</b>	<b>Total</b>
\$ 19,034	\$ 82,089	\$ -	\$ -	\$ 27,822	\$ 34,898	\$ 131,950	\$ 434,599
-	-	12,613	15,841	-	-	-	224,132
(20,255)	(82,001)	(12,193)	(14,859)	(29,927)	(35,795)	(148,581)	(626,057)
(1,221)	88	420	982	(2,105)	(897)	(16,631)	32,674
-	-	-	-	-	-	-	(165,000)
-	-	-	-	-	-	-	(53,915)
(12,328)	(42,494)	-	-	-	-	(88,299)	(214,950)
(12,328)	(42,494)	-	-	-	-	(88,299)	(433,865)
4	59	2	8	12	8	5,095	5,355
7,729	19,896	-	-	-	-	34,027	282,056
7,733	19,955	2	8	12	8	39,122	287,411
(5,816)	(22,451)	422	990	(2,093)	(889)	(65,808)	(113,780)
6,747	45,714	866	261	4,024	3,450	459,831	739,580
\$ 931	\$ 23,263	\$ 1,288	\$ 1,251	\$ 1,931	\$ 2,561	\$ 394,023	\$ 625,800
\$ (1,221)	\$ 88	\$ 420	\$ 982	\$ (2,105)	\$ (897)	\$ (16,631)	\$ 32,674
\$ (1,221)	\$ 88	\$ 420	\$ 982	\$ (2,105)	\$ (897)	\$ (16,631)	\$ 32,674



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

May 16, 2007

To the Drain Commissioner of  
Lenawee County  
Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Lenawee County Drain Commission***, as of and for the year ended December 31, 2006, which collectively comprise the Drain Commission's basic financial statements, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Lenawee County Drain Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Drain Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Drain Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Drain Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Drain Commission's financial statements that is more than inconsequential will not be prevented or detected by the Drain Commission's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

**2006-1****Preparation of Financial Statements in Accordance with GAAP**

<b>Criteria:</b>	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
<b>Condition:</b>	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
<b>Cause:</b>	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
<b>Effect:</b>	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
<b>Management's response:</b>	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Drain Commission's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of the Lenawee County Drain Commission in a separate letter May 16, 2007.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lenawee County Drain Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Drain Commissioner, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.





# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



May 16, 2007

To the Drain Commissioner of  
Lenawee County  
Adrian, Michigan

We have audited the financial statements of the Lenawee County Drain Commission for the year ended December 31, 2006, and have issued our report thereon dated May 16, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated January 16, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Lenawee County Drain Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Lenawee County Drain Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Lenawee County Drain Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Lenawee County Drain Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the Drain Commission's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

**Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Lenawee County Drain Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Lenawee County Drain Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Lenawee County Drain Commission's financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Lenawee County Drain Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Drain Commissioner, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# LENAWEE COUNTY DRAIN COMMISSION

## Comments and Recommendations

For the Year Ended December 31, 2006

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In planning and performing our audit of the financial statements of the Lenawee County Drain Commission as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Drain Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Drain Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, which are described in the Drain Commission's Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### **Physical Inventory**

The Drain Commission currently maintains inventory balances in the accounting records, recording new inventory as assets are purchased and recording expenditures to individual drains as inventory is used. In addition, the Drain Commission periodically takes a physical inventory of the assets on hand. However, the Drain Commission does not currently have procedures in place to reconcile the value of inventory determined as a result of the physical inventory to the balance on the general ledger. We recommend that the Drain Commission perform a physical inventory on a periodic basis (at least annually) and reconcile the inventory to the balance recorded on the general ledger.

\* \* \* \* \*